

Partnership for Public Accountability: Conservation Districts and SAO

Presentation to the Washington Association of
District Employees

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Discussion Topics

- SAO Overview
- Audit Approach: Authority, Roles, and Goals
- What to Expect in an Audit: Resources
- Audit Issues
- When Things Go Right
- Q & A



OVERVIEW

SAO Mission Statement

The State Auditor's Office independently serves the citizens of Washington by promoting accountability, fiscal integrity and openness in state and local government. Working with these governments and with citizens, we strive to ensure the proper use of public resources.



OVERVIEW

Audit Statutes

RCW 43.09.245 – Power to audit financial affairs of all local governments

RCW 43.09.260 – Mandates audit requirements: legal compliance, financial condition, financial reporting

RCW 43.09.310 – Audit of State Agencies
(Conservation Commission)



OVERVIEW

Specialist

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OVERVIEW

Local Government Audit Teams

Olympia

Tri-Cities

Bellingham

Yakima

Tacoma

Vancouver

Lynnwood

King County

Pullman

Seattle

Wenatchee

Spokane

Port Orchard



AUDIT APPROACH

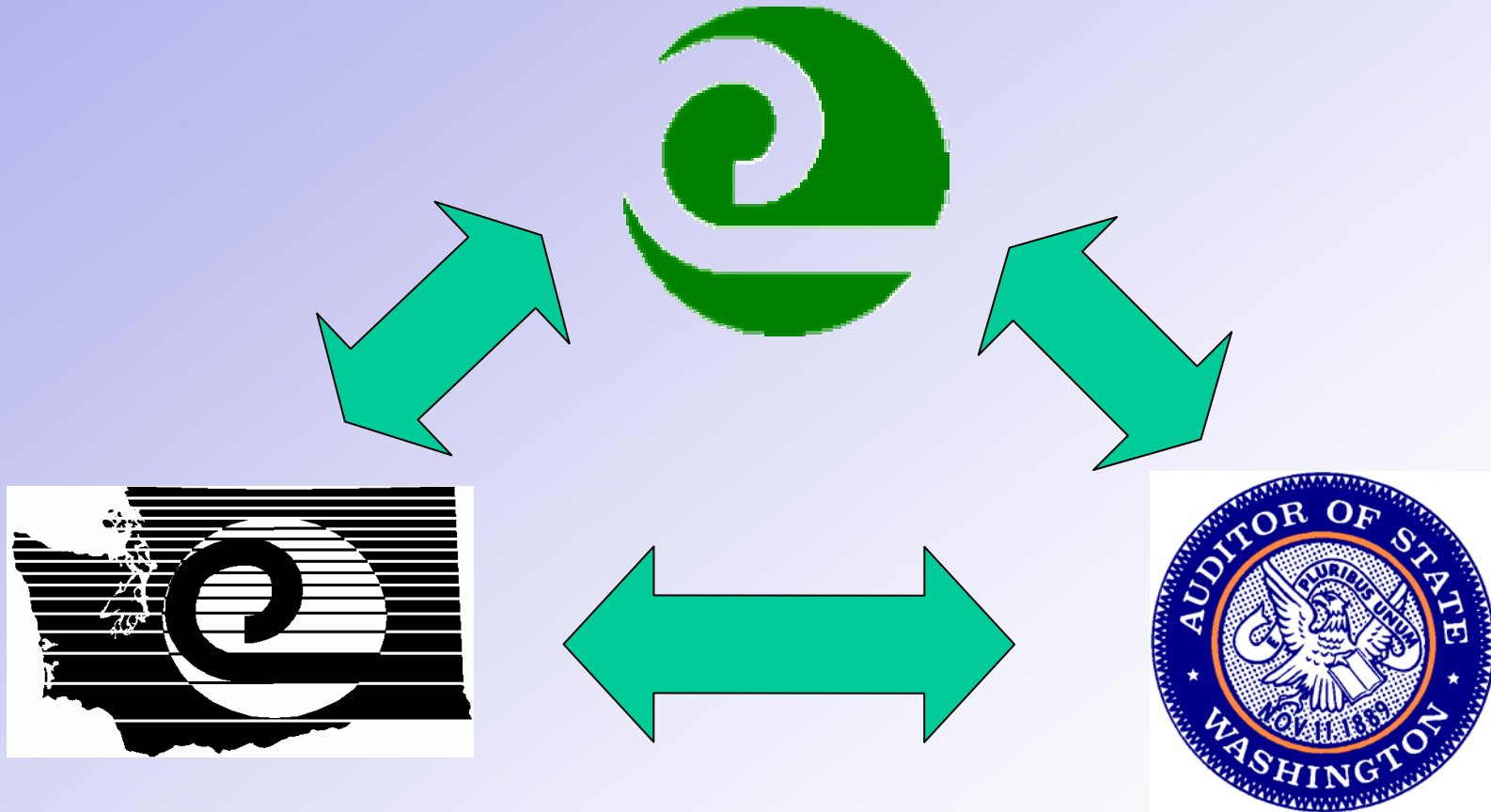
Audit Goals

- Manage Costs
- Minimize Intrusion
- Be Efficient and Effective



AUDIT APPROACH

Leveraging Relationships



AUDIT APPROACH

Conservation Commission

- Legal mandate to establish accounting and auditing procedures for CDs, with the assistance and advice of SAO (RCW 89.08.070(12))
- Provides overall guidance and resources – FOMs

Conservation Districts

- Establish internal controls
- Responsible for compliance with applicable laws



Communication

- Strong oversight by the Commission reduces audit risk at the Districts
- Communication between Districts, FOM's, and grants specialists to detect and prevent issues from occurring
- SAO Assistant Director and Specialist oversight provides consistency, centralized knowledge base



AUDIT APPROACH

Risk-based Audits

- **Fraud**
- **Not conducting business in an open and public manner**
- **Conflict of Interest**
- **Non Compliance with Contract/Bid requirements**
- **Management Dysfunction**
- **Financial Statement Misstatement**
- **Constituent Referrals and Complaints, News Stories**
- **Going Concern**
- **Shifting of Restricted Resources**
- **Inappropriate Use of Public Funds**
- **State Grants – Unallowable Use of Funds**
- **Illegal Investments**



AUDIT APPROACH

Risk-based Management

- Would you want it in the newspaper?
- If something went wrong, would you be able to trace it?
- CYA



AUDIT APPROACH

Scope of Audits

- Accountability
- Legal Compliance
- Financial
- Single Audit



WHAT TO EXPECT

The Audit Process

- Contact by Audit Team regarding timing
- Planning work
- Entrance Conference – all elected officials and Commission invited
- Field work
- Exit conference
- Issue audit report



WHAT TO EXPECT

Preparing for an Audit

- Communication:
 - Single audit needed?
 - Timing – vacations, etc
- Items to have ready – see handout



WHAT TO EXPECT

Types of Audits

- Field audit:
 - majority of work performed on-site
- Off-site audit:
 - records sent/taken to auditor's office
 - work performed in SAO office
- Surveys:
 - very small districts
 - audit work dependent on results of survey
 - done in conjunction with FOM's



WHAT TO EXPECT

Components of Successful Audits

- Staff are available and accessible
- Records are clear, organized, and complete
- Financial statements and notes are complete and accurate
 - Pre-audit at the District
 - Compliant with BARS
- Management is involved in the process
- Spirit of Cooperation



WHAT TO EXPECT

Rights and Responsibilities

- SAO
- Conservation District
- Public



Internal Controls

- Lack of segregation
- Lack of monitoring
 - Receipting
 - Reconciling
 - Disbursements



Disbursements

- Inadequate supporting documentation
- Unallowable use of public funds
- Unallowable use of grant funds
 - Direct and indirect charges



Financial Reporting

- District's responsibility to prepare
 - Complete
 - Timely
- Adequate support
 - Maintain reconciliations
 - Must be able to “drill down” to original source document
- BARS



Open Public Meetings Act

- RCW 42.30
- Municipal Research & Services Center
www.mrsc.org/
- Attorney General's Office Desktop
Reference – www.wa.gov/ago/records/



When Things Go Right

SAS 78 – Consideration of Internal Control in a Financial Statement Audit



WHEN THINGS GO RIGHT

Internal Controls

5 Components of Internal Control (SAS 78):

- Control environment
- Risk assessment
- Control activities
- Information and communication
- Monitoring



WHEN THINGS GO RIGHT

Control Environment

- Tone at the top
- Integrity and ethical values
- Involvement of Board of Supervisors
- Foundation for all other controls



WHEN THINGS GO RIGHT

Risk Assessment

Financial statement presentation:

- Identification, analysis, and management of risk of potential misstatement
- Controls to prevent misstatement



WHEN THINGS GO RIGHT

Control Activities

- Policies and procedures
- Safeguarding of assets
- Segregation of duties
- Occur at all levels of organization



WHEN THINGS GO RIGHT

Information and Communication

Information systems

- Identify, assemble, analyze, classify, record, and report transactions
- Maintain accountability

Communication

- Upstream as well as downstream
- Clear expectations



WHEN THINGS GO RIGHT

Monitoring

- Constant evaluation of control structure
- By-product of daily management
- Effective internal monitoring reduces need for external monitoring



WHEN THINGS GO RIGHT

Case Study

When things go right

Independent review – Monitoring

Active involvement by Management –
Control environment

When things go wrong

No independent review

Is there room for “Trust”?



Questions?

